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15 January 1952

CIA No. 49502

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**TOP SECRET SUPPLEMENT**

**TO THE DAILY DIGEST**

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Office of Current Intelligence

**CENTRAL INTELLIGENCE AGENCY**

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SECTION 2 (EASTERN)

1. INDIA. India continues to raise problems regarding Kashmir: Shortly before Ambassador Bowles' departure for Washington, Prime Minister Nehru and the Secretary General of the Indian Ministry of External Affairs again indicated to him a willingness to expedite a settlement of the Kashmir dispute.

The Secretary General hinted at the possibility of an Indian compromise on demilitarization, but at the same time brought up the explosive subject of partition, which has not yet been openly discussed in the UN Security Council. He also questioned how former residents of Kashmir could be repatriated and establish their eligibility to vote prior to a plebiscite.

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Comment: The Indian technique of raising tangential questions or of accompanying propositions with conditions impossible for Pakistan or the Security Council to accept has successfully delayed a settlement of the Kashmir dispute for over three years. Even if the Indian Government makes certain concessions in the near future on such matters as demilitarization, there is still no reason to believe that a final solution is anywhere in sight.

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**DAILY DIGEST**

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SECTION 1 (SOVIET)

1. USSR. Soviet official in Austria refers to State Treaty: In a propaganda-laden New Year's message, Soviet Deputy High Commissioner Kraskevich expressed the hope that Austria would prevent the lack of a state treaty from being exploited as a pretext for remilitarization and cause for slanderous propaganda by "reactionary" powers. The reference to the treaty conceivably foreshadows Soviet intransigence in the forthcoming treaty talks. [REDACTED]
2. Economic data on Soviet machine building industry: The US Embassy in Moscow has recently interpreted L. P. Beriia's statement of 6 November 1951 as signifying that the output of Soviet "machine-building" rose 21 percent above 1950, which represented a monetary value of 139.4 billion rubles. Beriia also said that total gross industrial production during 1951 rose 15 percent over 1950, to a total of approximately 276 billion rubles.

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The Embassy observes that this comparison is striking because of the fact that of the approximately 36 billion ruble gain in gross industrial production in 1951, over 24 billion came from the engineering industries, leaving a 12 billion ruble gain for the rest of the industrial economy. According to the Embassy, "machine-building" continued to gain at a very rapid rate (21 percent), whereas the rate of productive expansion for other Soviet industry was under 10 percent.

The Embassy adds that in this connection it is well to recall that expansion of Soviet engineering industries (including armaments) was apparently planned at an even higher rate for 1951. This conclusion is based on the results of the plan for the third quarter of 1951, which showed that several of the major machine-building ministries failed to meet their quarterly goals for the first time this year. [REDACTED]

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3. Purchase terms for private houses in the Soviet Union: The newspaper Evening Moscow carried an item on 11 November concerning the projected construction of houses in the Soviet Union. This item stated that Communal banks are authorized to advance credit to enterprises and institutions for the construction of houses to be resold to their employees.

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The cost of finished houses was reported to be between ten and thirty thousand rubles. Up to the present time most transactions have been conducted on a cash basis, with installment terms spread over two or three years in certain exceptional cases. The Evening Moscow article stated, however, that henceforth payment over a ten-year period would be permitted. Formerly, down payments of 20 percent of the purchase price were required, whereas this amount is now reduced to 10 percent.

The Embassy comments that it is difficult to imagine what kind of house could be built in the Soviet Union for ten thousand rubles, since current housing construction in Moscow involves costs of approximately 2,287 rubles per square meter of floor space. [REDACTED]

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4. CZECHOSLOVAKIA. Buying wave sparked by Radio Free Europe sweeps Prague: A buying panic is sweeping Prague, provoked, according to the American Embassy, by speculations of a currency reform broadcast over Radio Free Europe. Purchases are so far selective and people have concentrated on textiles, gold and diamonds sold on the free market. [REDACTED]

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Comment: Rumors of impending currency reform have circulated for several months in Czechoslovakia. The US Embassy feels that the RFE broadcasts are ill-timed and provide the regime with scapegoats on which to pin the necessity for more stringent economic measures against the population. The similar currency panic in Budapest this month, which was not inspired by RFE, is apparently related to the Prague panic only insofar as economic conditions in both countries make a future currency reform probable.

5. Premier Zapotocky rebukes trade unions and defines industrial sabotage: Premier Zapotocky, speaking to the Central Committee of the Mine Workers Union, accused the trade unions of failure to do their part in implementing government policies and of clinging to "old methods" in working for planned output.

Since it is difficult to determine where irresponsibility and slovenliness end and deliberate sabotage begins, Zapotocky said, the government will proceed against slackers as they would against convicted saboteurs. [REDACTED]

Comment: Zapotocky's rebuke to the trade unions and his view of sabotage echoes recent government statements made in connection with the new 1952 planned targets that increased labor discipline is the order of the day. It may indicate new penalties for absenteeism and "economic crimes against the state." "Old methods" of trade unions presumably refers to incorrect wage policy, and a lack of interest in Stakhanovism.

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7. Government spokesmen call for new labor recruitment: Prague Radio has announced that "tens of thousands" of permanent workers are needed in mines, foundries and key plants now under construction, and has asked mass organizations to help recruit them. The Minister of Manpower told labor heads in Prague that the government had a new recruiting system based on Soviet methods which will put an end to arbitrary movement of labor and organize recruitment. In another meeting the Minister of Fuel and Power commented upon the unsatisfactory output last year and added that temporary labor arrangements in the mines must be replaced with permanent cadres. [REDACTED]

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Comment: This new recruiting drive which the government intends to launch is a logical development from the recently inflated planned targets for heavy industry. Possible new manpower measures are recruitment of pensioners, clerical personnel, and soldiers, establishment of a State labor reserve program for training Czech youth, and institution of a labor-pass system. The comment on unsatisfactory output of oil and coal directly contradicts the statement of the Minister of State Planning that successes in these areas made possible an increase in planned targets for 1952.

8. HUNGARY. Absentee workers subject to punishment: In accordance with a Supreme Court ruling of 3 January 1952, four Hungarian workers were sentenced last week to terms of four to five months of "educational correction work" at wage reductions up to 25 percent for being absent from work a few days without permission. The press account of the sentencing stated that if the worker further infringes labor discipline during his sentence, which is served at his regular job, the term will be completed in prison. [REDACTED]

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Comment: The Hungarian Government's concern with absenteeism has been evident for months. Threats and cajolery have apparently failed to bring satisfactory results, so the above disciplinary measures have been introduced. Corrective labor entailing a 25 percent wage reduction is the punishment used in the USSR for similar infringements. The threat of such a wage reduction will be an effective weapon against passive resistance, since the workers are already on near starvation wages.

9. New US Minister cordially received: An aura of friendship and good feeling surrounded the presentation of credentials by Minister Ravndal to President Ronai on 11 January. Guards of honor and a band playing the US and Hungarian national anthems participated in the presentation. The third ranking official of the Foreign Office was the highest foreign service representative present. [REDACTED]

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10. POLAND. Large shipment of rubber from Ceylon and Malaya consigned to Poland: A total of 1150 tons of rubber consigned for Gdynia, Poland have been reportedly loaded aboard the Danish vessel Meonia. Of this consignment, 350 tons are from Ceylon and 800 from Malaya. [REDACTED]

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Comment: During the first eleven months of 1951, approximately 700 tons of rubber were shipped directly from Ceylon to Poland. This present large shipment is of interest in view of reports of Chinese Communist intentions to obtain Ceylonese rubber via Poland. They could obtain it by this procedure more cheaply than by direct purchase at premium prices. Additional unusually large rubber shipments to Poland from Ceylon and Malaya would lend substance to the view this procedure was being followed.

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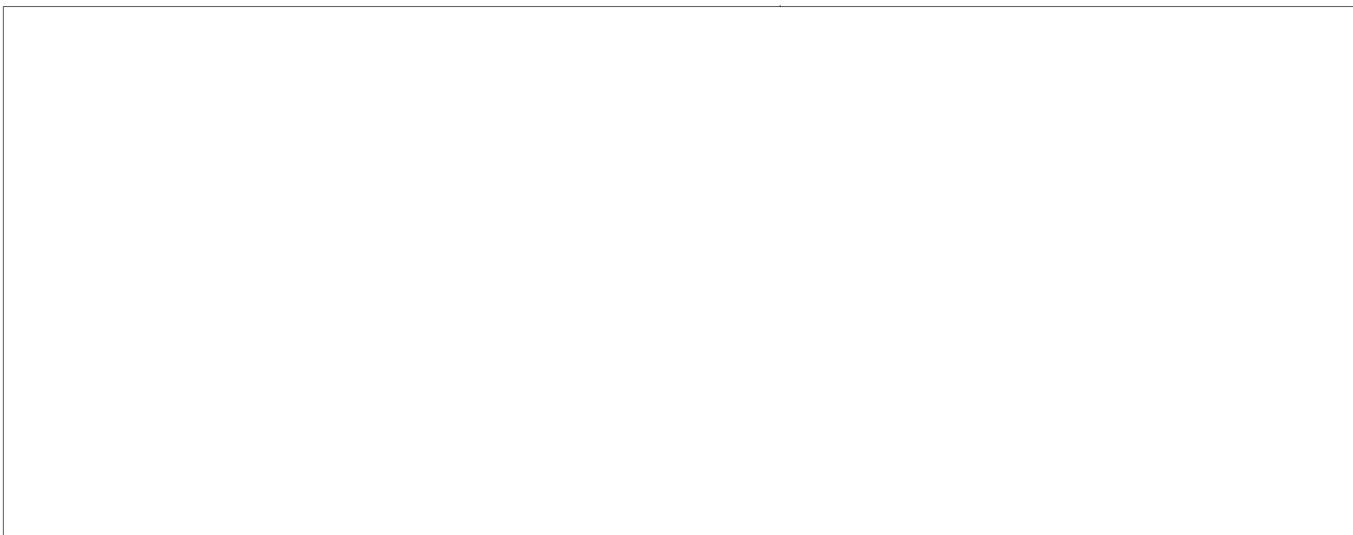
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SECTION 2 (EASTERN)

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2. IRAN. Troops receive part pay in government bonds: The US Army Attache in Tehran reports that army officers and some enlisted men of the Iranian Army were paid partly in government bonds for the month of December. Dissatisfaction is not yet serious, although it may become so later.

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Comment: The government is attempting by this maneuver to keep the troops paid, conserve its rapidly dwindling cash reserve, and stimulate the lagging sale of government bonds.

3. INDONESIA. South Celebes guerrillas attack five towns simultaneously: Guerrillas, probably followers of Kahar Muzakkar, attacked simultaneously five towns in the South Celebes on New Year's eve. The Army Attache comments that the attacks were probably a reaction to an announcement by Vice Premier Suwirjo that the Kahar Muzakkar affair was "virtually finished."

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Comment: Few reports are received on the government's South Celebes campaign, which has been in progress since last September. As far as is known, approximately 4,000 guerrilla troops are operating in the mountainous areas of the South Celebes but have largely avoided contact with government forces.

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4. THAILAND. Influential Chinese paper reportedly fires pro-Communist editors: The largest Chinese newspaper in Bangkok is reported to have fired its two most pro-Communist editors and to have adopted a more neutral policy. The US Embassy in Bangkok comments that if this report is true it would reflect a shift in sentiment among the Chinese in Thailand.

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Comment: Periodic reports have been received during the past several months indicating growing, but leaderless, anti-Communist sentiment among the Chinese in Thailand.

5. BURMA. Official foresees agreement on Mutual Security: The Permanent Secretary of the Burmese Foreign Office informed the US Charge in Rangoon of his belief that the latest wording proposed by the US with regard to the terms of the Mutual Security Act would be accepted. He warned, however, that the final decision rested with the Cabinet and would not be rendered until after the Premier returned to Rangoon on 16 January.

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Comment: The Burmese Government has indicated extreme sensitivity to leftist criticism of the ECA program. In renegotiating the bilateral treaty to conform with the Mutual Security Act, the Burmese appear to have been mostly concerned over the substitution of "mutual security" for "economic assistance." This reluctance can be traced to the desire to avoid antagonizing Communist China.

6. Insurgent assault foreseen in Mandalay area:

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the US Military Attache in Rangoon that the recent lull in insurgent activity around Mandalay has resulted from regrouping and consolidating activities. The insurgents, nevertheless, are reportedly preparing a large scale assault in the area with a view to confiscating and destroying the rice crop. They do not plan to hold Mandalay itself at this time. The attache comments that the Burmese Government is alert to this move and has moved additional troops into the area during the past week.

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Comment: the insurgents plan to reduce the amount of rice available to the government. While the main rice producing area in Burma is the Irrawaddy Delta, the insurgents can hinder the harvest and movements of rice in Shwebo and Kyaukse Districts, the second most productive area in Burma.

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7. Anti-Communist sentiment in Rangoon embarrasses Peiping envoy:  
The Chinese Communist Ambassador in Rangoon refused to appear on the reviewing stand during Burma's Independence Day parade because of the participation of the anti-Communist Union Chinese League. He also failed to appear at a reception given at the President's residence. Meanwhile, over 2,000 Chinese welcomed the Nationalist delegation to the ECAFE Conference in Rangoon, which constituted the biggest anti-Communist demonstration by Chinese yet seen in Rangoon.

The US Embassy in Rangoon comments that the Chinese Ambassador's action has caused more amusement than anger among Burmese officials and that the demonstration of welcome to the representatives of Taipei was probably designed to offset the effects of the recent visit of a Chinese Communist cultural mission. [REDACTED]

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Comment: Anti-Communist Chinese in Rangoon have recently been increasingly bold. However, they are [REDACTED] badly divided among themselves.

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9. KOREA: Communists continue airfield construction program in Korea:  
The Far East Command reports that photographs taken of enemy airfields at Uiju, Sinanju, and Pyongyang during December and early January indicate the continued construction of new facilities and the repair of bomb-damaged runways. The three-field complex of Namsi-Taechon-Saamcham in the Chongchon river area, however, has had no work done on it since early November. [REDACTED]

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Comment: Jet aircraft operated from Uiju airfield, on the Manchurian border, during November and December. While no operational aircraft have been sighted on the fields in the Pyongyang and Sinanju area, it is possible that they are bases for night interceptor or harassing flights.

10. KOREA. ROK Cabinet changes announced: On 12 January two major changes were effected by President Rhee in his Cabinet. Ho Chong, Minister of Social Affairs and Acting Prime Minister, (vice John Chang, now in Paris), was relieved of his ministerial post, but continues in his capacity as acting Prime Minister. Yi Sunyong, the controversial

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Home Minister, was transferred to the politically unimportant post of Minister of Communications. [REDACTED]

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Comment: Yi Sun-yong's ouster was forced on Rhee by extremely strong National Assembly pressure and reflects a partial victory for that body. There is reportedly considerable speculation as to what will happen to Ho Chong -- shorn of his permanent cabinet post -- when John Chang, the Prime Minister, returns from Paris. It is worth noting, further, that relations between Chang and Rhee have not been overly cordial recently.

11. JAPAN. Soviet patrol vessels off Hokkaido adopt politeness policy: Japanese fishermen report that following Stalin's message to the Japanese people, fishing vessels apprehended by Soviet patrol craft on the USSR side of the "MacArthur line" off Hokkaido have merely been warned that they were in Soviet territorial waters and released. The fishermen report that the Russians were very polite

CINCFE comments that this represents a significant change in the former Soviet policy of seizing these errant fishing craft and indicates a possible change in attitude towards the Japanese. [REDACTED]

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SECTION 3 (WESTERN)

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2. NETHERLANDS. Eisenhower reassures Dutch on European Defense Community: In his talks with General Eisenhower, Dutch Foreign Minister Stikker stated his belief that a solution to the European Defense Community problems could be reached, and conceded that the need for agreement was urgent. He believes that if the French crisis could be solved quickly, agreement on the EDC might still be achieved before the NATO meeting at Lisbon. Eisenhower assuaged Stikker's fears that the EDC might not evolve within the NATO framework and that the US might lose interest, pointing out that Europe must now show the US that it was able to face up to a situation and take the necessary measures. Stikker also stated that the handling of the EDC conference was "atrocious" and that no Benelux representative was able to have his views seriously discussed. [REDACTED]

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Comment: The Netherlands has considerably modified its formerly adamant position on the Defense Community, and Dutch support of the plan now seems assured.

3. ITALY. Italy and Iran to conclude barter agreement: An Italian-Iranian barter agreement probably will be signed in Tehran this week, according to available information. The agreement will provide for an exchange of traditional Iranian exports, including cotton, wool, and some carpets, for Italian textiles, industrial machinery, plant equipment, and chemicals. [REDACTED]

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Comment: Italy in the past obtained one third of its oil supply from Iran, but has already made up such supplies from other sources. The crisis in the Iranian oil industry has stimulated interest in oil refinery construction in Italy. Economic restrictions imposed by the British and loss of oil revenues have turned the Iranians to barter agreements.

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4. Italians chafe at recent US restrictions on Italian imports: Recent conversations between Italian and US officials in Rome reveal that the former are "chafing in principle" at the allegedly growing series of restrictive US measures on trade. Speculations as to whether the US will restrict Italian olive oil imports in response to the demands of US producers have caused strong criticism of US economic policy. The Italian Government would undoubtedly react strongly to such an eventuality, which would make it difficult for the US to persuade the Italians further to liberalize their trade.

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Comment: The Italians have been annoyed with US restriction of certain categories of agricultural products. Such restrictions will cause Italy to lose from 2.0 to 2.5 million dollars annually. In addition, US restriction of Italian olive oil imports would be a serious matter; olive oil production is expected to be from 65 to 75 percent greater than last year.

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6. SWEDEN. Pending trade agreement with USSR includes few strategic items: The Swedish-Soviet 1952 trade agreement, now in the final stage of negotiation, is believed to call for no Swedish exports of strategic items on the International List I. Strategic List II items for Swedish delivery include 386 thousand dollars worth of tungsten and molybdenum wire. The export quota for bearings remains the same as last year, about one million dollars worth, but Sweden has offered to deliver only List II size bearings this year.

The USSR has not yet submitted its specifications for bearings and may be troubled to find that the Swedish bearing manufacturing combine will not accept orders for bearings of List I sizes.

In return for exports worth about 17 million dollars Sweden would receive from the USSR about 19 million dollars worth of goods, including the 100,000 tons of wheat Sweden desired. Other projected imports from

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Comment: Although the 1951 trade agreement provided for exchanges worth only about 8 million dollars, the difference can be attributed largely to the expiration of the six-year Swedish credit to the USSR in December 1951. For the first time since 1945 Sweden will be receiving from the USSR goods approximately equivalent to Swedish deliveries.

7. Sweden adopts equivocal position towards Acheson Plan: Sweden informed the UN political committee on 8 January that Sweden would, subject to certain reservations expressed on 2 January, vote for the US-sponsored collective security proposal. [REDACTED]

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Comment: In order to preserve its reputation among the Western countries as well as to pay lip service to the ideal of collective security, Sweden has finally indicated its support for the Acheson Plan. Initially, Swedish Foreign Minister Oesten Unden had vigorously supported UN collective security measures in Korea, but reversed himself when the Korean hostilities seemed likely to spread into a larger conflict. Sweden is still, however, seeking to escape the responsibilities of collective security by reserving the right to refuse to apply sanctions in any conflict which threatens to become global.

8. MOROCCO. Personal liberty restored in Spanish Morocco: The Spanish High Commissioner in Morocco has informed nationalist leaders that political exiles may return to the Spanish zone and that the nationalist party may resume overt political activity. After a period of "political normality," a series of conversations between the administration and the nationalists will determine future policy.

French officials in Morocco fear that the Spanish will not be able to cope with events which may result from this leniency. The French Moroccan nationalists, however, have urged moderation, and the Nationalist Front has released the Spanish zone party from its pledge of non-negotiation with the protectorate powers prior to assurances of independence. [REDACTED]

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Comment: The Franco regime is undoubtedly attempting to promote Spanish influence and prestige in the Arab world and to ensure the diplomatic success of the Spanish Foreign Minister's forthcoming tour of the Arab States. French-Spanish relations are likely to worsen as Spanish Moroccan nationalists avail themselves of their restored freedoms.

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9. LATIN AMERICA. Plots to assassinate presidents believed to be test of police: According to the chief of the Bolivian Federal Police, he and his Chilean colleagues have concluded that Communists planted the reports that the Chilean and Bolivian presidents would be assassinated last November, in order to test police efficiency in the two countries. The Communists would exploit any revealed weaknesses towards increasing penetration and paving the way for eventual seizure of power.

The US Embassy comments that the Bolivian police chief has made an intensive study of Communist activities and may not be far wrong. [REDACTED]

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10. BOLIVIA. US air attache's estimate confirms probable change in junta: Public quarreling in the press indicates that military leaders are at an impasse over continuance of the junta, and replacement of some or all junta members is imminent. President Ballivian may be made scapegoat for the junta's "do-nothingness" and replaced by Minister of Government Seleme. This would be only an interlude, however, before control would probably return to the Nationalist Revolutionary Movement.

Violence is not expected unless labor leaders seize this opportunity to accelerate the Nationalist Revolutionary Movement's assumption of power. Such action may be determined by whether the junta agrees to assure the Movement's victory in the orderly elections demanded by General Torres, chief of staff and supreme military commander. No strategically situated troops have anti-Torres commanders. [REDACTED]

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Comment: Pressure for a change in the junta is increasing. There are indications that at least one faction of the Nationalist Revolutionary Movement would obtain increased influence, if not control, through such a change. Torres, who is pro-Movement, is on friendly terms with Seleme [REDACTED] In the last elections the Movement polled the largest popular vote.

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11. BRAZIL. US Embassy comments on political stability: US Ambassador Johnson comments that while the Brazilian Government is faced with serious nation-wide social, economic and political problems, none now appear grave enough to threaten an overthrow of the administration. President Vargas' failure so far to win firm control of the majority of political groups, both inside and outside Congress, has caused an inconsistent and often uncoordinated policy. Vargas "for whatever reason is not giving forceful leadership."

There is a widespread suspicion that Vargas is deliberately maneuvering to create conditions warranting a state of siege or other means to discard the constitution and return to his former dictatorial powers. The powerful

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Generals Canrobert and Goes Monteiro have denied this, and Canrobert has stated that if Vargas tries to become a dictator again, the armed forces would oust him, and that Vargas knows this.

Meanwhile, Vargas has been busily mending his political fences. He has rebuffed his Minister of War, whom many regard as pro-Communist, by proclaiming the Communist danger as well as Brazilian support for the US and the UN. By promising pay raises for all the armed forces he has won the approval of most of the military. A controversial decree on foreign exchange appears intended to regain lost prestige among the masses and at the same time to gain support of the nationalistic industrialists.

Ambassador Johnson concludes that there is constant intriguing among both pro- and anti-Vargas groups. "However," he adds, "under present conditions, the President appears secure unless he attempts to dump the constitution or unless social-economic crisis aggravated by Communist and ultranationalistic agitation becomes sufficiently acute to cause a popular uprising." Vargas, he continues, is using nationalism to gain time while seeking means to alleviate the social and economic problems.

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